



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2009 Biennium

Bill #	HB0678	Title:	Revise school funding and tax laws
Primary Sponsor:	Lange, Michael	Status:	Second Reading, Second House

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|---|--|--|
| <input type="checkbox"/> Significant Local Gov Impact | <input checked="" type="checkbox"/> Needs to be included in HB 2 | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
Expenditures:				
General Fund - Distribution to School	\$389,240	\$582,765	\$88,842	(\$336,332)
Revenue:				
General Fund	\$0	\$0	\$0	\$0
Net Impact-General Fund Balance:	<u>(\$389,240)</u>	<u>(\$582,765)</u>	<u>(\$88,842)</u>	<u>\$336,332</u>

Description of fiscal impact: HB 678: (1) decreases the direct state aid (DSA) percentage from 44.7% of the basic and per-ANB entitlements to 40.0% of the basic and per-ANB entitlements; (2) increases the guaranteed tax base aid (GTB) to schools from 35.3% to 40%; and (3) eliminates school district block grants.

FISCAL ANALYSIS

Assumptions:

Office of Public Instruction

1. Under current law, the average number belonging in K-12 public schools will be as follows:

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
K-6 ANB	72,763	72,332	72,171	72,503	73,663
7-8 ANB	24,643	24,111	23,148	22,413	22,051
9-12 ANB	<u>49,613</u>	<u>49,231</u>	<u>48,409</u>	<u>47,521</u>	<u>46,417</u>
	147,019	145,674	143,728	142,437	142,131

2. SB 417 or some other mechanism passes to allow the statutory level of inflation to increase the special education appropriation, and the basic and per ANB entitlements.

3. The present law inflation applied to the basic and per-ANB entitlements is 2.76% in FY2008, 3% in FY2009, 3% in FY2010 and FY2011. The basic and per-ANB entitlements will be set as follows:

	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>
Basic entitlement EL	\$20,718	\$21,290	\$21,929	\$21,929	\$21,929
Basic entitlement HS	\$230,199	\$236,552	\$243,649	\$243,649	\$243,649
Per-ANB entitlement EL	\$4,456	\$4,579	\$4,716	\$4,716	\$4,716
Per-ANB entitlement HS	\$5,704	\$5,861	\$6,037	\$6,037	\$6,037

4. Present law (MCA 20-9-326) requires the Governor to include inflation adjustments for the entitlements in the recommendations presented to the legislature. These present law adjustments result in the following expenditures: Direct State Aid will be \$354.946 million in FY2008 and \$361.442 million in FY2009. Guaranteed tax base aid to schools will be \$111.980 million in FY2008 and \$114.441 million in FY2009. County retirement GTB costs will be \$26.218 million in FY2008 and \$27.863 million.
5. The present law adjustment does not include inflationary increases for the general fund payments in 20-9-327 through 20-9-329, MCA. The payments will total \$35.937 million in FY2008 and \$35.892 million in FY 2009.
6. The state special education appropriation is estimated to grow at 2.76% in FY2008 and 3% in FY2009 and beyond. As a result, the state special education appropriation will be \$40.434 million in FY2008 and \$41.647 million in FY2009.
7. HB 678 decreases the direct state aid percentage from 44.7% of the basic and per-ANB entitlements to 40% for fiscal years 2008 and beyond. It also increases the guaranteed tax base budget area percentage from 35.3% of the basic and per-ANB entitlements to 40% of these entitlements.
8. HB 678 eliminates the school general fund portion of school block grants established under 20-9-630. Under current law, the block grants for FY 2008 through FY 2011 are anticipated to be as follows.

Block Grants	FY 2008	FY 2009	FY 2010	FY 2011
General Fund	\$44,019,074	\$44,353,619	\$44,690,706	\$45,030,355
Transportation	\$1,814,665	\$1,828,457	\$1,842,353	\$1,856,355
Combined	<u>\$3,346,324</u>	<u>\$3,371,756</u>	<u>\$3,397,382</u>	<u>\$3,423,202</u>
School Total	\$49,180,063	\$49,553,832	\$49,930,441	\$50,309,912
 Co Transportation	 \$1,785,691	 \$1,799,262	 \$1,812,936	 \$1,826,715

9. HB 678 raises the percentage of the statewide taxable valuation included in the calculation of the statewide guaranteed tax base ratio to 250% from 175%.

Department of Revenue

Property Tax

10. The reduction in property taxes due to the lower local school mills does not have a significant impact on individual income tax collections
11. The lowering of property taxes in this bill will not have a significant impact on business property tax expenses deductions.

	<u>FY 2008 Difference</u>	<u>FY 2009 Difference</u>	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>
<u>Fiscal Impact:</u>				
<u>Expenditures:</u>				
Local Assistance to Schools				
Direct State Aid (DSA)	(\$37,555,701)	(\$38,156,970)	(\$37,760,378)	(\$37,582,319)
Guaranteed Tax Base Aid (G	\$81,964,015	\$83,093,354	\$82,539,926	\$82,276,342
HB 124 Block Grants in Dist	(\$44,019,074)	(\$44,353,619)	(\$44,690,706)	(\$45,030,355)
TOTAL Expenditures	<u>\$389,240</u>	<u>\$582,765</u>	<u>\$88,842</u>	<u>(\$336,332)</u>

Funding of Expenditures:

General Fund (01)	\$389,240	\$582,765	\$88,842	(\$336,332)
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Revenues:

General Fund (01)	\$0	\$0	\$0	\$0
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Net Impact to Fund Balance (Revenue minus Funding of Expenditures):

General Fund (01)	(\$389,240)	(\$582,765)	(\$88,842)	\$336,332
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Effect on County or Other Local Revenues or Expenditures:**Office of Public Instruction**

1. Due to the reduction in the direct state aid percentage to 40%, the increase in the percentage of the statewide taxable valuation included in the calculation of the statewide GTB ratio to 250%, and the elimination of the general fund portion of the school district block grant, statewide school district levies to support the BASE budgets are projected to decrease by \$0.4 million in FY 2008 and by \$0.4 million in FY 2009 with an on-going tax savings in FY 2010 and FY 2011. Individual districts may have property tax increases or decreases as a result of HB 678.
2. All districts required school mills, District General Fund Base mills, will get closer to the statewide average District General Fund Base mills. Districts currently paying few Base mills will increase closer to the statewide average and districts paying high Base mills will pay less than current mills and reduce to be closer to the statewide average.

Technical Notes:

The title of the bill indicates that direct state aid is increased direct state aid is decreased by this bill to 40%.

Sponsor's Initials

Date

Budget Director's Initials

Date

